

Industry Clusters & the North American Industry Classification System

Or a story of apples and oranges



Industry clusters are the fodder of economic development tactics.

The North American Industry Classification System represents a collaborative effort between the United States, Canada and Mexico to commonly classify industries. Here in the U.S. it replaced the very outdated Standard Industrial Classification system more than a decade ago. NAICS categorizes each business or establishment into a detailed industry based on the production processes it uses. If you regularly read our publications, you'll be familiar with some of the "supersector" NAICS groupings, such as construction or leisure/hospitality services. Here at the Department of Workforce Services, economists analyze employment data using NAICS simply because that is how U.S. detailed statistical information is collected and classified by federal directive.

NAICS is an orderly, detailed and well thought-out system. The NAICS structure includes two- through six-digit classifications, offering five levels of detail. The more digits included in the code, the finer the level of detail. The federal government regularly adapts the NAICS coding system to reflect changes in the nature of the economy.

While NAICS provides structure for data users, industry or economic clusters are the fodder of economic development tactics. Typically, industry clusters are defined as a geographic concentration of interconnected businesses, suppliers

and associated institutions in a particular field or industry. The theory is that collaboration among these organizations will provide a sustainable, competitive advantage for an area.

For example, the Utah Governor's Office of Economic Development has identified several targeted economic clusters where it seeks to serve "as a catalyst to align necessary resources and policies that contribute" to the success of these clusters. These targeted clusters include aerospace/aviation, defense/homeland security, life sciences, energy/natural resources, financial services, software development/IT and outdoor products/recreation.

The Apples and Oranges Analogy

Why the talk about apples and oranges in the same breath as industry classification? Both the NAICS structure and the economic/industry cluster system embody ways of organizing and classifying industries. Both are metaphorically fruit.

Yet, these two systems are very different. NAICS was designed as a statistical method of organizing production activity for statistical agencies. Think of this structure as apples. However, because industry clusters represent a strategic rather than a statistical method of classifying industries, they often group establishments from diverse NAICS codes

Energy Industry Cluster Example Six-Digit NAICS Industries

NAICS Two- and Four-Digit Industries

Mining

- Coal Mining
- Metal Ore Mining
- Nonmetallic Mineral Mining and Quarrying
- Oil and Gas Extraction
- Support Activities for Mining

Utilities

- Power Generation and Supply
- Natural Gas Distribution

Manufacturing

- Petroleum and Coal Products Manufacturing

Transportation

- Pipeline Transportation of Crude Oil



Source: Utah Department of Workforce Services.

into one cluster. Think of industry clusters as oranges. Again, both systems classify industries, just differently. The graphic provides an example of how an industry cluster (energy) may draw from many different NAICS industries. For example, the energy cluster draws from mining (all blue cells), utilities (green), manufacturing (purple) and transportation (orange).

Determining exactly which NAICS industries should be included in an industry cluster is no easy task since there's no established methodology. In addition, often at even the most detailed level, only a portion of the data for a particular NAICS industry should be included in a certain economic cluster. So, forgive the data keepers of

the world as they struggle to produce and track economic information for industry clusters. Also, understand that information produced for these clusters may be difficult to reproduce for other entities because of the confidential nature of the data at the detailed NAICS level. ⓘ

*For more information, see
business.utah.gov and
census.gov/eos/www/naics/*